

Message Text

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12

ACTION NEA-12

INFO OCT-01 AF-10 EA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SPC-03

SS-20 USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08

CEA-02 INT-08 FEA-02 AGR-20 DRC-01 IO-14 /225 W

----- 056132

R 110826Z MAR 74

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 6362

INFO AMEMBASSY KUALA LUMPUR

AMEMBASSY CAIRO

AMEMBASSY TRIPOLI

AMEMBASSY ABU DHABI

AMEMBASSY KUWAIT

AMEMBASSY RABAT

AMEMBASSY ISLAMABAD

AMEMBASSY TEHRAN

AMEMBASSY MANAMA

AMEMBASSY AMMAN

USINT DAMASCUS

C O N F I D E N T I A L JIDDA 1179

E.O. 11652: GDS

TAGS: EFIN, EAID, SA, XB, XA, XD, XF

SUBJECT: ISLAMIC DEVELOPMENT BANK

SUMMARY: EMBOFFS MARCH 9 CALLED ON TUNKU ABDUL RAHMAN WHO IS ON TOUR OF ARAB OIL PRODUCING STATES IN CONNECTION FOUNDING OF ISLAMIC DEVELOPMENT BANK. TUNKU SAID HE HOPED HAVE CHARTER OF BANK (WITH PAID UP CAPITAL OF ONE BILLION DOLLARS AND AUTHORIZED CAPITAL OF TWO BILLION) READY FOR APPROVAL BY ISLAMIC FINANCE MINISTERS SO THAT IT CAN BE DISCUSSED BY FOREIGN MINISTERS IN
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LATE MAY OR EARLY JUNE AT KUALA LUMPUR. KING FAISAL

AND LIBYAN LEADER QADHAFI ARE AMONG STRONGEST SUPPORTERS OF BANK WHICH SHOULD BE A REALITY BY BEGINNING 1975. BANK WILL BE SEPARATE FROM ISLAMIC SECRETARIAT, THOUGH TUG-OF-WAR FOR CONTROL STILL SEEMS TO BE IN PROGRESS. END SUMMARY.

1. ON MARCH 9 COUNSELOR AND POLITICAL OFFICER CALLED ON TUNKU ABDUL RAHMAN, WHO IS IN SAUDI ARABIA IN CONNECTION WITH PREPARATIONS FOR LAUNCHING OF THE ISLAMIC DEVELOPMENT BANK. TUNKU PLANNED TO BRIEF KING FAISAL IN RIYADH MARCH 10, THEN TO TRAVEL TO LIBYA TO SEE QADHAFI, TO CAIRO (IF APPOINTMENT CAN BE ARRANGED WITH SADAT), THEN TO KUWAIT, BAHRAIN, AND ABU DHABI BEFORE RETURNING TO MALAYSIA.

2. TUNKU SAID THAT PLANS FOR ISLAMIC DEVELOPMENT BANK (IDB) MOVING AHEAD DESPITE A NUMBER OF OBSTACLES THANKS TO THE ACTIVE SUPPORT OF SEVERAL STATES INCLUDING SAUDI ARABIA, KUWAIT, BAHRAIN, THE UAE, AND PARTICULARLY LIBYA. (TUNKU SAID THAT QADHAFI IS, "FOR ALL HIS FAULTS," A SINCERE AND ENTHUSIASTIC BOOSTER OF IDB.) KING FAISAL HAS PROMISED TO IMMEDIATELY TURN OVER VILLA FOR IDB AS INITIAL HEADQUARTERS IN JIDDA. THE MAIN PROBLEM SO FAR HAS BEEN DRAFTING A CHARTER FOR A MODERN, EFFECTIVE BANK WHICH WILL AT SAME TIME CONFORM TO ISLAMIC LAW AND PRACTICE. PARTICULARLY TROUBLESOME HAS BEEN FINDING AN ACCEPTABLE MEANS OF COMPENSATING FOR FACT THAT BANK WILL NOT CHARGE INTEREST ON LOANS.

3. TUNKU SAID THAT DECISION HAD BEEN MADE TO START THE BANK ON A SOMEWHAT MODEST SCALE--PERHAPS OVERLY MODEST IN VIEW OF THE RESOURCES NOW POTENTIALLY AVAILABLE. THE IDB WILL BE CAPITALIZED AT 2 BILLION DOLLARS WITH PAID UP CAPITAL OF ONE BILLION DOLLARS. SEVENTY-FIVE PERCENT OF THIS AMOUNT WILL BE SUBSCRIBED BY ARAB OIL PRODUCING STATES (IRAN HAS NOT INDICATED ITS INTENTION TO PARTICIPATE) AND 25 PERCENT BY OTHERS. HE HAS OPTED TO KEEP THE BANK'S STRUCTURE AS SIMPLE AS POSSIBLE SO THAT IT WILL COME INTO OPERATION AS SOON AS POSSIBLE AND BEGIN MEETING THE URGENT NEEDS OF THE POORER ISLAMIC

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COUNTRIES FOR ASSISTANCE IN PROJECTS SUCH AS AGRICULTURAL DEVELOPMENT, ROADS, BRIDGES, ETC. ALTHOUGH DETAILS ARE STILL TO BE WORKED OUT, WEIGHT OF EACH COUNTRY'S VOTE ON BOARD OF DIRECTORS WILL BE DEPENDENT UPON THE AMOUNT OF THAT COUNTRY'S SUBSCRIPTION. (EACH MEMBER COUNTRY WILL HAVE, FOR INSTANCE, 1,000 SHARES WITH ADDITIONAL SHARES AVAILABLE AT \$10,000 PER SHARE. A CEILING WILL BE SET ON THE VOTING STRENGTH OF ANY ONE

COUNTRY.

4. TUNKU SAID THAT HE WILL RETURN TO MALAYSIA AFTER THIS SWING THROUGH THE MIDDLE EAST TO WORK WITH THE EXPERTS HE HAS GATHERED TOGETHER ON DRAFTING THE BANK'S CHARTER. HE HOPED THAT IT WILL BE READY FOR DISCUSSION AND PRELIMINARY APPROVAL AT A MEETING OF ISLAMIC FINANCE MINISTERS IN MAY. HE SAID THAT THE ISLAMIC FOREIGN MINISTERS' MEETING SCHEDULED TO BE HELD IN KUALA LUMPUR IN MAY WILL BE DELAYED SEVERAL WEEKS SO THAT THE MINISTERS WILL BE ABLE TO TAKE UP THE IDB.

5. ON SEVERAL OCCASIONS DURING THE CONVERSATION WITH THE TUNKU, THERE EMERGED SIGNS OF BAD RELATIONS WITH HIS SUCCESSOR AS SECRETARY GENERAL OF THE ISLAMIC SECRETARIAT, HASSAN TUHAIFY (WHOM TUNKU CONSISTENTLY REFERRED TO AS "THAT EGYPTIAN CHAP"). ACCORDING TO THE TUNKU'S POSSIBLY BIASED ACCOUNT, TUHAIFY HAD BEEN PUSHING AN EGYPTIAN PLAN FOR AN ISLAMIC BANK WHICH WOULD HAVE CONCENTRATED CONTROL OF THE FUNDS IN EGYPTIAN HANDS. THIS BEING UNACCEPTABLE TO ALL OTHER COUNTRIES CONCERNED, TUNKUNEAD THAT HE THEN RELUCTANTLY TOOK UP THE TASK OF CREATING A BANK RESPONSIVE TO THE NEEDS AND DESIRES OF THE ISLAMIC STATES.

6. TUNKU SAID THE IDB IS BEING DEVELOPED ENTIRELY SEPARATELY FROM ISLAMIC SECRETARIAT. IT WAS CLEAR FROM HIS REMARKS THAT HE INTENDS TO DO ALL HE CAN TO KEEP IT THAT WAY. AT THE SAME TIME IT APPEARS THAT SEC GEN TUHAIFY MAY NOT BE COMPLETELY RESIGNED TO THIS STATE OF AFFAIRS, AND A TUG-OF-WAR OVER THE SHAPE AND CONTROL OF THE IDB MAY STILL BE IN PROGRESS (THE REASON TUNKU WAS UNSURE OF HIS TRAVEL TO CAIRO
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WAS BECAUSE HE THOUGHT THAT TUHAIFY MIGHT HAVE PERSUADED SADAT NOT TO SEE HIM, IN WHICH CASE HE INTENDED SKIP HIS "COURTESY CALL" IN EGYPT).

7. COMMENT: IT IS CLEAR THAT MUCH REMAINS TO BE DONE, BUT, HOWEVER SLOWLY AND FALTERINGLY, THE IDB SEEMS TO BE BECOMING A REALITY.
AKINS

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30 JUN 2005

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